

FIRST INVESTMENT BANK AD
CONSOLIDATED FINANCIAL STATEMENTS
AS AT 30 JUNE 2010
WITH INDEPENDENT AUDITOR'S REPORT THEREON



**REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF FIRST INVESTMENT BANK AD**

Sofia, 24 September 2010

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated statement of financial position as at 30 June 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, adopted by European Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of First Investment Bank AD as at 30 June 2010, and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards, adopted by European Commission.

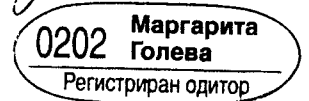
Gilbert McCaul
Partner



KPMG Bulgaria OOD
45A Bulgaria Blvd
1404 Sofia
Bulgaria



Margarita Goleva
Registered auditor



Consolidated statement of comprehensive income for the six months ended 30 June 2010
In thousands of BGN

	Note	Six months ended 30 June 2010	Six months ended 30 June 2009
Interest income		188,041	172,595
Interest expense		(125,726)	(115,774)
Net interest income	6	62,315	56,821
Fee and commission income		28,090	29,569
Fee and commission expense		(3,957)	(3,676)
Net fee and commission income	7	24,133	25,893
Net trading income	8	4,071	4,712
Other operating income/(expenses)	9	918	(146)
TOTAL INCOME FROM BANKING OPERATIONS		91,437	87,280
General administrative expenses	10	(70,037)	(70,437)
Impairment (losses)/loss reversals	11	(8,303)	1,847
Other income, net		999	2,271
PROFIT BEFORE TAX		14,096	20,961
Income tax expense	12	(1,680)	(2,949)
GROUP PROFIT AFTER TAX		12,416	18,012
Other comprehensive income			
Exchange differences on translating foreign operations		191	(893)
Available for sale financial assets		14	7,074
Other comprehensive income for the period		205	6,181
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		12,621	24,193
Profit attributable to:			
Owners of the Bank		12,463	18,208
Non-controlling interests		(47)	(196)
Total comprehensive income attributable to:			
Owners of the Bank		12,668	24,389
Non-controlling interests		(47)	(196)
Basic and diluted earnings per share (in BGN)	13	0.11	0.17

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 49.

Gilbert McCaul
 Partner
 KPMG Bulgaria OOD



Margarita Goleva
 Registered auditor

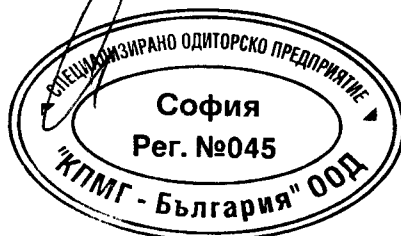


Consolidated statement of financial position as at 30 June 2010
In thousands of BGN

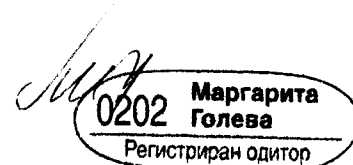
	Note	30 June 2010	31 December 2009
ASSETS			
Cash and balances with central banks	14	620,528	603,792
Financial assets held for trading	15	11,400	9,023
Available for sale investments	16	565,196	285,110
Financial assets held to maturity	17	38,918	35,425
Loans and advances to banks and financial institutions	18	19,165	26,187
Loans and advances to customers	19	3,111,624	2,966,461
Property and equipment	20	132,953	131,793
Intangible assets	21	17,723	18,543
Derivative assets held for risk management		11	-
Other assets	23	47,908	35,950
TOTAL ASSETS		4,565,426	4,112,284
LIABILITIES AND CAPITAL			
Due to credit institutions	24	1,695	7,650
Due to other customers	25	3,859,318	3,339,546
Liabilities evidenced by paper	26	126,082	193,363
Subordinated term debt	27	53,258	60,641
Perpetual debt	28	99,931	98,952
Deferred tax liability	22	2,483	1,944
Derivative liabilities held for risk management		-	248
Other liabilities	29	6,884	6,905
TOTAL LIABILITIES		4,149,651	3,709,249
Issued share capital	31	110,000	110,000
Share premium	31	97,000	97,000
Statutory reserve	31	39,861	39,861
Revaluation reserve on available for sale investments	31	(132)	(146)
Reserve from translation of foreign operations	31	(2,438)	(2,629)
Retained earnings	31	171,297	158,857
SHAREHOLDERS' EQUITY		415,588	402,943
Non-controlling interests	31	187	92
TOTAL GROUP EQUITY		415,775	403,035
TOTAL LIABILITIES AND GROUP EQUITY		4,565,426	4,112,284

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 49.

Gilbert McCaul
 Partner
 KPMG Bulgaria OOD



Margarita Goleva
 Registered auditor

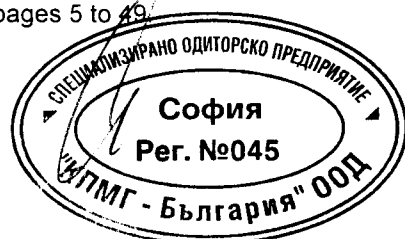


Consolidated statement of cash flows for the six months ended 30 June 2010
In thousands of BGN

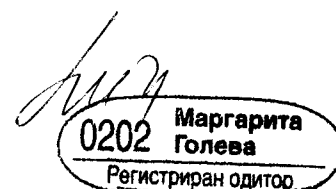
	Six months ended 30 June 2010	Six months ended 30 June 2009
Net cash flow from operating activities		
Profit for the period	12,416	18,012
Adjustment for non-cash items		
Impairment losses/(loss reversals)	8,303	(1,847)
Depreciation and amortisation	10,343	9,657
Income tax expense	1,680	2,949
(Profit)/loss from sale and derecognition of tangible and intangible fixed assets, net	(4,949)	(5,954)
	27,793	22,817
Change in operating assets		
(Increase) in financial instruments held for trading	(2,377)	(17,390)
(Increase) in available for sale investments	(280,072)	(67,404)
(Increase)/decrease in loans and advances to banks and financial institutions	3,473	(18,636)
(Increase) in loans to customers	(153,466)	(75,034)
(Increase) in other assets	(11,969)	(10,452)
	(444,411)	(188,916)
Change in operating liabilities		
(Decrease) in deposits from banks	(5,955)	(19,517)
Increase in amounts owed to other depositors	519,772	137,656
Net (decrease) in other liabilities	(590)	(2,846)
	513,227	115,293
Income tax paid	(629)	(1,532)
NET CASH FLOW FROM OPERATING ACTIVITIES	95,980	(52,338)
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(10,735)	(6,610)
Sale of tangible and intangible fixed assets	5,001	7,612
(Increase)/decrease of investments	(3,493)	28,371
NET CASH FLOW FROM INVESTING ACTIVITIES	(9,227)	29,373
Financing activities		
(Decrease) in borrowings	(73,685)	(220,194)
Non-controlling interests at incorporation of subsidiaries	119	-
NET CASH FLOW FROM FINANCING ACTIVITIES	(73,566)	(220,194)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	13,187	(243,159)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	612,084	752,334
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	625,271	509,175
(see note 33)		

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 49.

Gilbert McCaul
 Partner
 KPMG Bulgaria OOD



Margarita Goleva
 Registered auditor



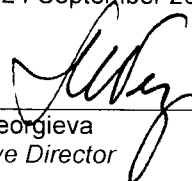
Consolidated statement of changes in equity for the six months ended 30 June 2010
In thousands of BGN

	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interests	Total
Balance as at 1 January 2009	110,000	97,000	129,095	(6,467)	(813)	39,861	58	368,734
Total comprehensive income for the period								
Profit for the six months ended 30 June 2009	-	-	18,208	-	-	-	(196)	18,012
Other comprehensive income for the period								
Revaluation reserve on available for sale investments	-	-	-	7,074	-	-	-	7,074
Reserve from translation of foreign operations	-	-	-	-	(893)	-	-	(893)
Movement related to the changes in non-controlling interest's shareholding	-	-	(251)	-	-	-	251	-
Balance as at 30 June 2009	110,000	97,000	147,052	607	(1,706)	39,861	113	392,927
Balance as at 1 January 2010	110,000	97,000	158,857	(146)	(2,629)	39,861	92	403,035
Total comprehensive income for the period								
Profit for the six months ended 30 June 2010	-	-	12,463	-	-	-	(47)	12,416
Other comprehensive income for the period								
Revaluation reserve on available for sale investments	-	-	-	14	-	-	-	14
Reserve from translation of foreign operations	-	-	-	-	191	-	-	191
Non-controlling interests at incorporation of subsidiaries	-	-	-	-	-	-	119	119
Movement related to the changes in non-controlling interest's shareholding	-	-	(23)	-	-	-	23	-
Balance as at 30 June 2010	110,000	97,000	171,297	(132)	(2,438)	39,861	187	415,775

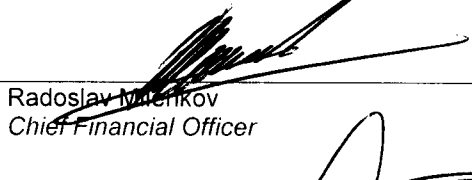
The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 49.


The financial statements have been approved by the Managing Board on 24 September 2010 and signed on its behalf by:

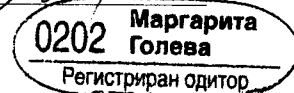

 Evgeni Lukarov
 Executive Director


 Maya Georgieva
 Executive Director


 Radoslav Mladenkov
 Chief Financial Officer


 Gilbert McCaul
 Partner
 KPMG Bulgaria OOD


 Margarita Goleva
 Registered auditor



Notes to the financial statements

1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) is incorporated in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by the Bulgarian legislation.

As a result of a successful initial public offering (IPO) of new shares on the Bulgarian Stock Exchange – Sofia the Bank is registered as a public company at the Register of the Financial Supervision Commission in accordance with the provisions of the Bulgarian Public Offering of Securities Act on 13 June 2007.

The consolidated financial statements of the Bank as at and for the six months ended 30 June 2010 comprise the Bank and its subsidiaries (see note 36), together referred to as the “Group”.

The Group has foreign operations in Cyprus and Albania.

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Commission.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2 (p).

(c) Basis of preparation

The financial statements are presented in Bulgarian leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

2. Significant accounting policies

(a) Income recognition

(i) *Interest income*

Interest income and expense is recognised in profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) *Fee and commission*

Fee and commission income arises on financial services provided by the Group and is recognised in profit or loss when the corresponding service is provided.

Notes to the financial statements

2. Significant accounting policies, continued

(a) Income recognition, continued

(iii) *Net trading income*

Net gains (losses) on financial assets and liabilities held for trading include those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Group.

(iv) *Dividend income*

Dividend income is recognised when the right to receive dividends is established. Usually this is the ex-dividend date for equity securities.

(b) Basis of consolidation of subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the special purpose entity is controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As long as the Bank controls the subsidiary, subsequent acquisitions/sales of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

(c) Foreign currency transactions

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bulgarian leva, which is the Group's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation differences on non-monetary items are included in other comprehensive income.

(iii) *Foreign operations*

The assets and liabilities of foreign operations are translated to Bulgarian leva at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Bulgarian leva at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income. The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. The functional currency of the foreign operations in Albania is determined by the management to be the Albanian lek.

Notes to the financial statements

2. Significant accounting policies, continued

(d) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management because its performance is internally evaluated and reported on a fair value basis. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) *Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Were the Group to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category shall be reclassified as available for sale.

(iv) *Available-for-sale*

Available-for-sale investments are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(v) *Recognition*

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

(vi) *Measurement*

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired

Notes to the financial statements

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) *Measurement, continued*

at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

Interest calculated using the effective interest method is recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

(vii) *Fair value measurement*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions with the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

Notes to the financial statements

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement, continued

The Group determines the fair value of the financial instruments applying the next methods hierarchy that reflects the significance of the factors used for fair value measurement:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques using inputs that are observable for the fair value of the financial instruments either directly (i.e., as prices) or indirectly (i.e., derived from prices). This level includes quotations in not active market or instruments measured by using a valuation technique;
- Level 3 – fair value measurements using inputs for the financial asset or liability that are not based on observable market data. In addition, this level includes equity investments in other institutions, related to the membership of the Group in certain organizations, whose fair value cannot be reliably measured and are measured at cost.

The next table analyses the financial instruments measured at fair value by valuation models.

<i>thousands of BGN</i>	Level 1	Level 2	Level 3	Total
30 June 2010				
Financial assets held for trading	11,400	-	-	11,400
Available for sale investments	522,824	39,630	2,742	565,196
Derivatives held for risk management	11	-	-	11
Total	534,235	39,630	2,742	576,607
<i>thousands of BGN</i>	Level 1	Level 2	Level 3	Total
31 December 2009				
Financial assets held for trading	7,595	1,428	-	9,023
Available for sale investments	247,224	35,166	2,720	285,110
Derivatives held for risk management	(248)	-	-	(248)
Total	254,571	36,594	2,720	293,885

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets

Notes to the financial statements

2. Significant accounting policies, continued

(d) Financial assets, continued

(viii) *Derecognition, continued*

with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturity of three months or less.

(f) Investments

Investments that the Group holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

(g) Securities borrowing and lending business and repurchase transactions

(i) *Securities borrowing and lending*

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(ii) *Repurchase agreements*

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the purchase (sale) and resell (repurchase) considerations is recognised on an accrual basis over the period of the transaction and is included in interest income (expenses).

(h) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective yield method.

Notes to the financial statements

2. Significant accounting policies, continued

(h) Borrowings, continued

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other operating income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(i) Loans and advances

The amount of the loss is determined as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. If a loan has a variable interest rate, the discount rate is the current effective interest rate determined under the contract. Short-term balances are not discounted. Calculation of the present value of estimated future cash flows includes interest and principal repayments as well as the cash flows that could arise from high-liquid collateral.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the assets is reduced through use of an allowance account. Specific allowances are allocated against the carrying amount of loans and advances for which objective evidence of impairment exists as a result of past events that occurred after the initial recognition of the asset. Objective evidence of impairment include significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the borrower will probably enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets. General allowances are maintained to reduce the carrying amount of portfolios of loans and advances with similar credit risk characteristics that are collectively assessed for impairment. The expected cash flows for portfolios of similar assets are estimated on the basis of historical loss experience for assets with characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Increases in the allowance account are recognised in profit or loss. When a loan is identified to be not recoverable, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the allowance reversal is recognised in profit or loss.

Notes to the financial statements

2. Significant accounting policies, continued

(j) Impairment, continued

(ii) Available for sale financial assets

If there is objective evidence that an impairment loss has been incurred on an equity instrument not carried at fair value, the amount of the loss is measured as the difference between its carrying amount and the present value of estimated future cash flows discounted at the current market rate of return.

When an asset remeasured to fair value through other comprehensive income is impaired, the decline in the fair value of the asset that had been previously recognised in other comprehensive income is reclassified to profit or loss even though the financial asset has not been derecognised.

If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be related to an event after the impairment loss recognition, the impairment loss is reversed and recognised in profit or loss.

(k) Property, plant and equipment

Items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost of fixed assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	%
▪ Buildings	3 - 4
▪ Equipment	10 - 33
▪ Fixtures and fittings	10 - 20
▪ Vehicles	10 - 20
▪ Leasehold improvements	2 - 67

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

(l) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Assets	%
▪ Licences	10 - 20
▪ Computer software	10 - 33

(m) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements

2. Significant accounting policies, continued

(n) Acceptances

An acceptance is created when the Group agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Group's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of required documents. The Group negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(o) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the end of each reporting period, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to profit or loss, except to the extent that it relates to items previously recognised either in other comprehensive income or directly in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the financial statements

2. Significant accounting policies, continued

(p) Critical accounting estimates and judgements in applying accounting policies, continued

(ii) *Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the overall provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(q) **Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options.

(r) **Employee benefits**

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further amounts. The respective jurisdictions are responsible for providing pensions under a defined contribution pension plan. The Group's contributions to the defined contribution pension plan are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, paragraph 3 of the Bulgarian Labor Code. According to these regulations, when a labor contract of an employee of the Bank, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee has service in the Bank during the last 10 years as at retirement date, then the compensation amounts to six gross monthly salaries. As at the end of the reporting period, the management of the Group estimates the approximate amount of the potential expenditures for every employee using the projected unit credit method.

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Notes to the financial statements

2. Significant accounting policies, continued

(r) Employee benefits, continued

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees, and the obligation can be estimated reliably. The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the six months period ended 30 June 2010, and have not been applied in preparing these consolidated financial statements.

New, revised or amended standards:

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* is effective for annual period beginning on or after 1 February 2010. The management does not expect amendment to IAS 32 to have an effect on financial statements as the Group has not issued such instruments at any time in the past.

Documents issued by IASB/IFRIC, that are not approved for application by the European Commission:

The management believes that it is appropriate to disclose that the following revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- Revised IAS 24 *Related Party Transactions* (issued November 2009), effective date 1 January 2011;
- IFRS 9 *Financial Instruments* (issued November 2009), effective date 1 January 2013;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (issued November 2009), effective date 1 July 2010.
- Improvements to IFRSs 2010 (issued May 2010), various effective dates, earliest 1 July 2010;
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* (issued November 2009), effective date 1 January 2011;
- Amendments to IFRS 1 *First-time Adoption of IFRSs: Additional exemptions for first-time adopters* (issued July 2009), effective date 1 July 2010;

The management has not yet completed the estimation of the potential impact of these changes on the financial statements.

Notes to the financial statements

3. Risk management disclosures

A. Trading activities

The Group maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Group's trading activities are customer driven. In anticipation of customer demand, the Group carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Group to provide customers with money market products at competitive prices.

The Group manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

The Group operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Group. The management of the Group performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The management based on this analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Group responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

(i) **Credit risk**

Default risk is the risk that counterparts to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

Settlement risk is the risk of loss due to counterpart failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

(ii) **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Group's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments.

In a developing money and capital market, the prices at which transactions are realised can be different from quoted prices. While the management has used available market information in estimating fair value, it may not be fully reflective of the value that could be realised under the current circumstances.

Notes to the financial statements

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) *Market risk, continued*

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain unchanged for the specified time interval. Value at risk is calculated using one day horizon and 99% confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Group's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in the first half of 2010:

	30 June	Six months ended 30 June 2010			31 December
<i>in thousands of BGN</i>	2010	average	low	high	2009
VaR	581	590	401	808	531

B. Non-trading activities

Below is a discussion of the various risks the Group is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, liabilities evidenced by paper, subordinated debt instruments and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides an analysis of the financial assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 30 June 2010

<i>In thousands of BGN</i>	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year not defined	Maturity	Total
Assets						
Cash and balances with central banks	620,528	-	-	-	-	620,528
Financial assets held for trading	11,400	-	-	-	-	11,400
Available for sale investments	-	-	488,501	73,953	2,742	565,196
Financial assets held to maturity	1,431	-	19,284	18,203	-	38,918
Loans and advances to banks and financial institutions	6,611	458	3,985	8,111	-	19,165
Loans and advances to customers	421,202	104,641	566,680	2,019,101	-	3,111,624
Other financial assets	11	-	-	-	-	11
Total financial assets	1,061,183	105,099	1,078,450	2,119,368	2,742	4,366,842
Liabilities						
Due to credit institutions	1,695	-	-	-	-	1,695
Due to other customers	1,259,238	1,120,225	1,102,013	377,842	-	3,859,318
Liabilities evidenced by paper	20,823	10,046	12,189	83,024	-	126,082
Subordinated term debt	-	-	-	53,258	-	53,258
Perpetual debt	-	-	-	-	99,931	99,931
Total financial liabilities	1,281,756	1,130,271	1,114,202	514,124	99,931	4,140,284
Net liquidity gap	(220,573)	(1,025,172)	(35,752)	1,605,244	(97,189)	226,558

Notes to the financial statements
3. Risk management disclosures, continued
B. Non-trading activities, continued
(i) Liquidity risk, continued
Maturity table as at 31 December 2009

<i>In thousands of BGN</i>	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year not defined	Maturity not defined	Total
Assets						
Cash and balances with central banks	603,792	-	-	-	-	603,792
Financial assets held for trading	9,023	-	-	-	-	9,023
Available for sale investments	39,101	-	175,059	68,230	2,720	285,110
Financial assets held to maturity	-	16,504	4,000	14,921	-	35,425
Loans and advances to banks and financial institutions	11,101	-	6,422	8,664	-	26,187
Loans and advances to customers	337,111	131,313	537,291	1,960,746	-	2,966,461
Total financial assets	1,000,128	147,817	722,772	2,052,561	2,720	3,925,998
Liabilities						
Due to credit institutions	7,650	-	-	-	-	7,650
Due to other customers	1,213,508	833,777	1,241,352	50,909	-	3,339,546
Liabilities evidenced by paper	68,545	23,626	9,359	91,833	-	193,363
Subordinated term debt	-	-	-	60,641	-	60,641
Perpetual debt	-	-	-	-	98,952	98,952
Other financial liabilities	248	-	-	-	-	248
Total financial liabilities	1,289,951	857,403	1,250,711	203,383	98,952	3,700,400
Net liquidity gap	(289,823)	(709,586)	(527,939)	1,849,178	(96,232)	225,598

As at 30 June 2010 the funds by the thirty largest non-bank depositors represent 4.72% of total deposits from other customers (2009: 6.52%).

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) *Liquidity risk, continued*

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 30 June 2010 based on the contractual undiscounted cash flows.

<i>In thousands of BGN</i>	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Total
Due to credit institutions	1,695	-	-	-	1,695
Due to other customers	1,261,244	1,134,966	1,156,216	437,344	3,989,770
Liabilities evidenced by paper	20,852	10,103	12,448	91,509	134,912
Subordinated term debt	7,976	-	2,924	76,649	87,549
Perpetual debt	-	6,601	4,775	150,758	162,134
Total financial liabilities	1,291,767	1,151,670	1,176,363	756,260	4,376,060

(ii) *Market risk*

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Base Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as at 30 June 2010 is BGN +6.6/-6.6 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as at 30 June 2010 is BGN -7.9/+7.9 Mio.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 30 June 2010 and the periods in which financial liabilities and assets reprice.

<i>In thousands of BGN</i>	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments			
				Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with central banks	209,601	0.29%	26,056	183,545	-	-	-
Financial assets held for trading	8,405	4.84%	-	-	-	-	8,405
Available for sale investments	562,454	1.17%	45,282	-	-	488,501	28,671
Financial assets held to maturity	38,918	5.19%	9,563	1,435	-	19,380	8,540
Loans and advances to banks and financial institutions	14,962	7.60%	4,443	2,408	-	-	8,111
Loans and advances to customers	3,052,443	13.19%	2,628,202	81,525	32,921	133,622	176,173
Non-interest earning assets	678,643	-	-	-	-	-	-
Total assets	4,565,426		2,713,546	268,913	32,921	641,503	229,900
Liabilities							
Due to credit institutions	1,695	0.03%	1,695	-	-	-	-
Due to other customers	3,845,744	6.59%	1,253,923	418,826	862,464	1,044,687	265,844
Liabilities evidenced by paper	126,082	3.36%	73,836	20,710	3,439	641	27,456
Subordinated term debt	53,258	15.15%	-	-	-	-	53,258
Perpetual debt	99,931	12.58%	-	-	-	-	99,931
Non-interest bearing liabilities	22,941	-	-	-	-	-	-
Total liabilities	4,149,651		1,329,454	439,536	865,903	1,045,328	446,489

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2009 and the periods in which financial liabilities and assets reprice.

<i>In thousands of BGN</i>	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments			
				Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with central banks	205,870	0.24%	36,351	169,519	-	-	-
Financial assets held for trading	5,862	5.74%	-	-	70	-	5,792
Available for sale investments	282,390	1.84%	40,541	39,101	-	175,059	27,689
Financial assets held to maturity	35,425	3.75%	-	-	16,504	4,000	14,921
Loans and advances to banks and financial institutions	22,196	5.99%	6,423	7,109	-	-	8,664
Loans and advances to customers	2,944,177	13.03%	2,383,153	79,397	45,872	164,298	271,457
Non-interest earning assets	616,364	-	-	-	-	-	-
Total assets	4,112,284		2,466,468	295,126	62,446	343,357	328,523
Liabilities							
Due to credit institutions	7,650	0.44%	1,864	5,786	-	-	-
Due to other customers	3,335,415	6.52%	1,084,683	376,614	729,572	1,124,361	20,185
Liabilities evidenced by paper	193,363	4.09%	79,181	67,957	14,591	3,371	28,263
Subordinated term debt	60,641	13.55%	-	-	-	-	60,641
Perpetual debt	98,952	12.51%	-	-	-	-	98,952
Non-interest bearing liabilities	13,228	-	-	-	-	-	-
Total liabilities	3,709,249		1,165,728	450,357	744,163	1,127,732	208,041

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) *Market risk, continued*

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk through transactions in foreign currencies and on financial instruments that are denominated in a foreign currency.

As a result of the currency board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Group presents its financial statements is the Bulgarian lev, the Group's financial statements are affected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised as net trading income in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the presentation currency of the Group. These exposures were as follows:

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Monetary assets		
Euro	2,210,754	2,362,649
US dollar	236,963	263,242
Other currencies	69,818	57,998
Gold	6,450	7,538
Monetary liabilities		
Euro	1,968,991	1,991,204
US dollar	245,805	271,394
Other currencies	67,955	58,422
Gold	-	-
Net position		
Euro	241,763	371,445
US dollar	(8,842)	(8,152)
Other currencies	1,863	(424)
Gold	6,450	7,538

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Group manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues contingent liabilities. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. These exposures are as follows:

30 June 2010	<i>In thousands of BGN</i>	
Class of exposure	Gross amount of loans and advances to customers	Carrying amount of loans and advances to customers
Collectively impaired		
Standard	2,831,565	2,827,917
Individually impaired		
Watch	227,683	224,554
Nonperforming	32,703	26,847
Loss	98,717	32,306
Total	3,190,668	3,111,624

31 December 2009	<i>In thousands of BGN</i>	
Class of exposure	Gross amount of loans and advances to customers	Carrying amount of loans and advances to customers
Collectively impaired		
Standard	2,711,032	2,708,086
Individually impaired		
Watch	205,423	202,547
Nonperforming	32,034	25,698
Loss	91,174	30,130
Total	3,039,663	2,966,461

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 32).

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

Total economic sector credit risk concentrations in loans and advances to customers are presented in the table below.

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Trade	685,235	758,855
Industry	629,828	652,808
Services	326,417	171,282
Finance	6,923	13,295
Transport, logistics	198,342	157,317
Communications	33,540	31,580
Construction	147,366	143,110
Agriculture	70,301	71,192
Tourist services	101,198	108,449
Infrastructure	129,784	126,091
Private individuals	739,188	752,021
Other	122,546	53,663
Less allowance for impairment	(79,044)	(73,202)
Total	3,111,624	2,966,461

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 30 June 2010 with total exposures amounting to BGN 58,076 thousand (2009: BGN 45,903 thousand) - ferrous and non-ferrous metallurgy, BGN 77,122 thousand (2009: BGN 75,684 thousand) - mining industry and BGN 105,650 thousand (2009: BGN 105,139 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 15 individual clients or groups (2009: 13) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,101,229 thousand which represents 224.89% of the Group's capital base (2009: BGN 804,532 thousand which represented 166.34% of capital base) of which BGN 880,540 thousand (2009: BGN 694,309 thousand) represent loans and BGN 220,689 thousand (2009: BGN 110,223 thousand) represent guarantees, letters of credit and other commitments.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The loans extended by the Cyprus branch amount to BGN 147,619 thousand (2009: BGN 147,095 thousand) and in Albania – BGN 29,822 thousand (2009: BGN 22,950 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

The Group's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Group's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, pledge of inventory, listed investments or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 171,335 thousands (2009: BGN 166,802 thousands):

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Mortgage	1,440,712	1,392,732
Pledge of receivables	216,922	200,429
Pledge of commercial enterprise	451,979	433,880
Securities	76,258	68,904
Bank guarantee	4,723	4,159
Other guaranties	268,167	234,325
Pledge of goods	121,330	128,774
Pledge of machines	186,665	181,282
Money deposit	47,565	47,479
Stake in capital	28,463	28,006
Gold	18	18
Other collateral	156,203	128,736
Unsecured	20,328	24,137
Total	3,019,333	2,872,861

Other collateral position includes insurance policies limited up to the insurance amount, future money transfers to account, other proceeds as salaries transfers and other.

Notes to the financial statements

3. Risk management disclosures, continued

C. Capital adequacy

The Group's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. Individual banking operations are directly supervised by their local regulators. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 1 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC and their amendments. In implementing current capital requirements the Group is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets and a minimum prescribed ratio of 6% of Tier 1 capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As the Group holds insignificant trading book, the Group does not apply capital requirements to its exposures in trading portfolio in respect to market risk and calculates required capital for trading instruments in accordance with the provisions for banking book.

The Group calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB. Exposures are taken into account using their carrying amount. Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors (0%, 20%, 50%, 100%), designed to convert these items into carrying amount equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 35%, 50%, 75%, 100%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

The Group calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

In addition, the Group is required to hold capital for operational risk. The basic indicator approach is used. Required capital is equal to the average gross annual income over the previous three years multiplied by a fixed percentage (15%). Respective risk weighted assets are calculated by further multiplication by 12.5.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from past years, current half-year audited profit, translation reserve and non-controlling interests after deductions for goodwill and other intangible assets and unrealised loss from available for sale investments.
- Tier 2 capital, which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

Following limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. Deductions from capital base include specific provisions for credit risk.

The Group has complied with all capital requirements.

Notes to the financial statements

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level is as follows:

<i>In thousands of BGN</i>	Carrying amount/notional amount		Risk weighted amount	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	863,649	538,983	29,217	12,319
Multilateral development banks	-	3,224	-	-
Institutions	270,879	268,535	69,104	65,644
Corporates	2,138,509	1,977,273	2,105,552	1,948,053
Retail	532,480	533,454	384,861	511,035
Claims secured by residential property	369,137	395,941	129,198	197,971
Past due exposures	56,383	44,810	56,383	44,810
Collective investment undertaking	1,950	2,004	1,950	2,004
Other items	299,593	314,536	180,879	164,549
TOTAL	4,532,580	4,078,760	2,957,144	2,946,385
Off-balance sheet items				
Exposure class				
Central governments and central banks	782	-	-	-
Institutions	27,690	26,704	7,531	7,147
Corporates	432,310	495,301	190,982	209,004
Retail	231,002	226,810	4,855	2,473
Claims secured by residential property	4,518	4,640	790	1,143
Other items	-	-	15	15
TOTAL	696,302	753,455	204,173	219,782
Derivatives				
Exposure class				
Institutions	937	311	187	62
Corporates	176	-	176	-
TOTAL	1,113	311	363	62
Total risk-weighted assets for credit risk			3,161,680	3,166,229
Risk-weighted assets for market risk			4,787	4,325
Risk-weighted assets for operational risk			358,675	327,113
Total risk-weighted assets			3,525,142	3,497,667
Capital adequacy ratios	Capital		Capital ratios %	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Tier 1 Capital	375,186	363,237	10.64%	10.39%
Total capital base	489,672	483,657	13.89%	13.83%

Notes to the financial statements

4. Segment Reporting

Segment information is presented in respect of the Group's geographical segments. The primary format is based on the Group's management and internal reporting structure.

Measurement and reporting of segment assets and liabilities and segment revenues and expenses are based on the accounting policies set out in the accounting policy note.

Transactions between segments are conducted on an arm's length basis.

The Group operates principally in Bulgaria, but also has operations in Cyprus and Albania.

In presenting information on the basis of geographical segments, income and expenses are allocated based on the location of the Group affiliate that generates them. Segment assets and liabilities are allocated based on their geographical location.

<i>In thousands of BGN</i>	Bulgarian operations		Foreign operations		Total	
	Six months ended 30 June 2010	Six months ended 30 June 2009	Six months ended 30 June 2010	Six months ended 30 June 2009	Six months ended 30 June 2010	Six months ended 30 June 2009
Interest income	177,109	162,938	10,932	9,657	188,041	172,595
Interest expense	(123,463)	(114,749)	(2,263)	(1,025)	(125,726)	(115,774)
Net interest income	53,646	48,189	8,669	8,632	62,315	56,821
Fee and commission income	27,762	29,064	328	505	28,090	29,569
Fee and commission expense	(3,891)	(3,620)	(66)	(56)	(3,957)	(3,676)
Net fee and commission income	23,871	25,444	262	449	24,133	25,893
General administrative expenses	(66,926)	(67,458)	(3,111)	(2,979)	(70,037)	(70,437)
	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Segment assets	4,317,556	3,884,490	247,870	227,794	4,565,426	4,112,284
Segment liabilities	4,041,892	3,588,244	107,759	121,005	4,149,651	3,709,249

Notes to the financial statements

4. Segment Reporting, continued

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 30 June 2010 and for the six months then ended:

In thousands of BGN

Business segment	Assets	Liabilities	Interest income	Interest expense	Net fee and commission income	Net trading income	Other operating income
Commercial banking	2,420,343	652,005	139,668	(13,607)	7,152	-	-
Retail banking	691,281	3,207,313	43,402	(101,146)	1,999	-	-
International business	-	279,271	-	(10,946)	3,530	-	-
Cards business	-	-	-	-	5,896	-	-
Liquidity	1,249,470	1,695	4,971	(7)	4	631	233
Dealing	5,748	-	-	-	(49)	3,440	679
Clients services	-	-	-	-	5,447	-	-
Other	198,584	9,367	-	(20)	154	-	6
Total	4,565,426	4,149,651	188,041	(125,726)	24,133	4,071	918

Notes to the financial statements

5. Financial assets and liabilities

Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 30 June 2010.

In thousands of BGN

	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	-	-	505,711	-	-	114,817	620,528	620,528
Financial assets held for trading	11,400	-	-	-	-	-	11,400	11,400
Available for sale investments	-	-	-	565,196	-	-	565,196	565,196
Financial assets held to maturity	-	38,918	-	-	-	-	38,918	38,719
Loans and advances to banks and financial institutions	-	-	19,165	-	-	-	19,165	19,165
Loans and advances to customers	-	-	3,111,624	-	-	-	3,111,624	3,111,624
Other financial assets	-	-	-	-	-	11	11	11
Total	11,400	38,918	3,636,500	565,196	-	114,828	4,366,842	4,366,643
LIABILITIES								
Due to credit institutions	-	-	-	-	1,695	-	1,695	1,695
Due to other customers	-	-	-	-	3,859,318	-	3,859,318	3,859,318
Liabilities evidenced by paper	-	-	-	-	126,082	-	126,082	126,082
Subordinated term debt	-	-	-	-	53,258	-	53,258	53,258
Perpetual debt	-	-	-	-	99,931	-	99,931	98,541
Total	-	-	-	-	4,140,284	-	4,140,284	4,138,894

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of loans and advances to customers is approximately equal to their carrying value due to the fact that the main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions. The fair value of liabilities evidenced by paper is approximately equal to their carrying value due to the fact that the main part of liabilities evidenced by paper with long-term maturity carry floating interest rates which reflect the changes in the market conditions.

Notes to the financial statements

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2009.

In thousands of BGN

	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	-	-	460,871	-	-	142,921	603,792	603,792
Financial assets held for trading	9,023	-	-	-	-	-	9,023	9,023
Available for sale investments	-	-	-	285,110	-	-	285,110	285,110
Financial assets held to maturity	-	35,425	-	-	-	-	35,425	35,402
Loans and advances to banks and financial institutions	-	-	26,187	-	-	-	26,187	26,187
Loans and advances to customers	-	-	2,966,461	-	-	-	2,966,461	2,966,461
Total	9,023	35,425	3,453,519	285,110	-	142,921	3,925,998	3,925,975
LIABILITIES								
Due to credit institutions	-	-	-	-	7,650	-	7,650	7,650
Due to other customers	-	-	-	-	3,339,546	-	3,339,546	3,339,546
Liabilities evidenced by paper	-	-	-	-	193,363	-	193,363	193,363
Subordinated term debt	-	-	-	-	60,641	-	60,641	60,641
Perpetual debt	-	-	-	-	98,952	-	98,952	99,252
Other financial liabilities	-	-	-	-	-	248	248	248
Total	-	-	-	-	3,700,152	248	3,700,400	3,700,700

Notes to the financial statements

6. Net interest income

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
Interest income		
Accounts with and placements to banks and financial institutions	874	1,077
Retail customers	43,928	43,674
Loans to corporate clients	123,185	104,950
Loans to small and medium enterprises	13,954	14,717
Microlending	2,016	2,412
Debt instruments	4,084	5,765
	188,041	172,595
Interest expense		
Deposits from banks	(8)	(577)
Deposits from other customers	(114,632)	(84,261)
Liabilities evidenced by paper	(2,114)	(21,680)
Subordinated term debt	(3,077)	(3,440)
Perpetual debt	(5,875)	(5,770)
Lease agreements and other	(20)	(46)
	(125,726)	(115,774)
Net interest income	62,315	56,821

For the six months ended 30 June 2010 and 30 June 2009 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 14,919 thousand and BGN 6,051 thousand respectively.

7. Net fee and commission income

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
Fee and commission income		
Letters of credit and guarantees	3,182	3,565
Payments transactions	3,762	3,753
Customer accounts	5,954	4,588
Cards business	8,928	9,181
Other	6,264	8,482
	28,090	29,569
Fee and commission expense		
Letters of credit and guarantees	(203)	(421)
Correspondent accounts	(394)	(440)
Cards business	(3,031)	(2,764)
Other	(329)	(51)
	(3,957)	(3,676)
Net fee and commission income	24,133	25,893

Notes to the financial statements

8. Net trading income

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
Net trading gains/(losses) arise from:		
- Debt instruments	631	438
- Equity instruments	(188)	(580)
- Foreign exchange	3,628	4,854
Net trading income	4,071	4,712

9. Other operating income/(expenses)

Other operating income/(expenses) represent net gains/(losses) from disposal of financial instruments not carried at fair value through profit or loss.

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
Other operating income/(expenses) arise from:		
- Debt instruments	233	(31)
- Equity instruments	679	-
- Other	6	(115)
Other operating income/(expenses)	918	(146)

10. General administrative expenses

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
General and administrative expenses comprise:		
- Personnel cost	21,657	21,571
- Depreciation and amortisation	10,343	9,657
- Advertising	2,268	4,282
- Building rent expense	13,314	10,891
- Telecommunication, software and other computer maintenance	5,670	6,092
- Unclaimable VAT	4,817	4,670
- Administration, consultancy and other costs	11,968	13,274
General administrative expenses	70,037	70,437

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 30 June 2010 the total number of employees of the Group is 2,610 (30 June 2009: 2,476).

Notes to the financial statements

11. Impairment (losses)/loss reversals

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
Write-downs		
<i>Loans and advances to customers</i>	(15,668)	(15,177)
Reversal of write-downs		
<i>Loans and advances to customers</i>	7,365	17,024
Net impairment (losses)/loss reversals	(8,303)	1,847

12. Income tax expense

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
Current taxes	(1,141)	(2,817)
Deferred taxes (see note 22)	(539)	(132)
Income tax expense	(1,680)	(2,949)

Reconciliation between tax expense and the accounting profit is as follows:

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
Accounting profit before taxation	14,096	20,961
Corporate tax at applicable tax rate (10% for 2010 and 10% for 2009)	1,410	2,096
Effect of tax rates of foreign subsidiaries and branches	266	136
Tax effect of permanent tax differences	(535)	585
Tax effect of temporary differences	539	132
Income tax expense	1,680	2,949
Effective tax rate	11.92%	14.07%

13. Earnings per share

	Six months ended 30 June 2010	Six months ended 30 June 2009
Net profit attributable to shareholders (<i>in thousands of BGN</i>)	12,463	18,208
Weighted average number of ordinary shares (<i>in thousands</i>)	110,000	110,000
Earnings per share (<i>in BGN</i>)	0.11	0.17

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In 2010 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

Notes to the financial statements

14. Cash and balances with central banks

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Cash on hand		
- In Bulgarian leva	75,923	97,145
- In foreign currencies	38,894	45,776
Balances with central banks	305,832	261,943
Current accounts and amounts with resident banks	-	4,094
Current accounts and amounts with foreign banks	199,879	194,834
Total	620,528	603,792

15. Financial assets held for trading

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating:		
- denominated in Bulgarian leva	8,394	2,638
- denominated in euro	11	-
Foreign banks, assessed with AAA rating	-	3,224
Other issuers – equity instruments (unrated)	2,995	3,161
Total	11,400	9,023

16. Available for sale investments

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Bonds, notes and other instruments issued by:		
Bulgarian government		
- denominated in Bulgarian leva	28,671	27,688
- denominated in foreign currencies	5,652	5,376
Foreign governments		
- treasury bills	488,501	214,160
Foreign banks	39,630	35,166
Other issuers – equity instruments	2,742	2,720
Total	565,196	285,110

Notes to the financial statements

17. Financial assets held to maturity

Long-term securities held to maturity represent debt investments that the Group has the intent and ability to hold to maturity.

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Securities held to maturity issued by:		
Bulgarian government	11,141	21,833
Foreign governments	18,214	5,407
Foreign banks	9,563	8,185
Total	38,918	35,425

18. Loans and advances to banks and financial institutions

(a) Analysis by type

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Placements and other amounts due from banks	13,199	20,007
Receivables under resale agreements (see note 30)	1,867	2,810
Other	4,099	3,370
Total	19,165	26,187

(b) Geographical analysis

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Resident banks and financial institutions	2,064	3,491
Foreign banks and financial institutions	17,101	22,696
Total	19,165	26,187

Notes to the financial statements
19. Loans and advances to customers

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Retail customers		
- Consumer loans	205,469	210,334
- Mortgage loans	349,622	360,781
- Credit cards	171,335	166,802
Small and medium enterprises	224,137	219,053
Microlending	27,678	29,456
Corporate customers	2,212,427	2,053,237
Less allowance for impairment	(79,044)	(73,202)
Total	3,111,624	2,966,461

(a) Movement in impairment allowances

<i>In thousands of BGN</i>	
Balance at 1 January 2010	73,202
Additional allowances	15,668
Amounts released	(7,365)
Write - offs	(2,476)
Effects of changes in foreign currencies rates	15
Balance at 30 June 2010	79,044

Notes to the financial statements
20. Property and equipment

<i>In thousands of BGN</i>	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2009	12,367	97,196	6,261	60,104	39,468	215,396
Additions	-	283	-	11,625	27	11,935
Disposals	(1,538)	(4,768)	(309)	(73)	(502)	(7,190)
Transfers	-	12,929	7	(36,325)	9,143	(14,246)
At 31 December 2009	10,829	105,640	5,959	35,331	48,136	205,895
Additions	-	50	-	10,658	-	10,708
Disposals	-	(2,941)	(34)	(39)	(202)	(3,216)
Transfers	711	9,765	263	(18,050)	7,079	(232)
At 30 June 2010	11,540	112,514	6,188	27,900	55,013	213,155
Depreciation						
At 1 January 2009	3,603	44,641	3,632	-	10,161	62,037
Charge for the year	378	12,930	871	-	3,160	17,339
On disposals	(571)	(4,086)	(260)	-	(357)	(5,274)
At 31 December 2009	3,410	53,485	4,243	-	12,964	74,102
Charge for the period	189	7,054	388	-	1,633	9,264
On disposals	-	(2,928)	(34)	-	(202)	(3,164)
At 30 June 2010	3,599	57,611	4,597	-	14,395	80,202
Net book value						
At 1 January 2009	8,764	52,555	2,629	60,104	29,307	153,359
At 31 December 2009	7,419	52,155	1,716	35,331	35,172	131,793
At 30 June 2010	7,941	54,903	1,591	27,900	40,618	132,953

Notes to the financial statements
21. Intangible assets
In thousands of BGN

	Software and licences	Goodwill	Total
Cost			
At 1 January 2009	8,487	107	8,594
Additions	88	-	88
Disposals	(134)	-	(134)
Transfers	14,246	-	14,246
At 31 December 2009	22,687	107	22,794
Additions	27	-	27
Disposals	(745)	-	(745)
Transfers	232	-	232
At 30 June 2010	22,201	107	22,308
Amortisation			
At 1 January 2009	2,963	-	2,963
Charge for the year	1,393	-	1,393
On disposals	(105)	-	(105)
At 31 December 2009	4,251	-	4,251
Charge for the period	1,079	-	1,079
On disposals	(745)	-	(745)
At 30 June 2010	4,585	-	4,585
Net book value			
At 1 January 2009	5,524	107	5,631
At 31 December 2009	18,436	107	18,543
At 30 June 2010	17,616	107	17,723

Notes to the financial statements

22. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10%.

Deferred income tax balances are attributable to the following items:

<i>In thousands of BGN</i>	Assets		Liabilities		Net	
	31		31		31	
	30 June	December	30 June	December	30 June	December
	2010	2009	2010	2009	2010	2009
Property, equipment and intangibles	-	-	2,661	2,273	2,661	2,273
Other items	(239)	(392)	61	63	(178)	(329)
Net tax (assets)/liabilities	(239)	(392)	2,722	2,336	2,483	1,944

Movements in temporary differences for the six months ended 30 June 2010 at the amount of BGN 539 thousand are recognised in the net profit for the period.

23. Other assets

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Deferred expense	17,723	5,003
Gold bullion	6,450	7,538
Other assets	23,735	23,409
Total	47,908	35,950

24. Due to credit institutions

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Term deposits	-	6,359
Payable on demand	1,695	1,291
Total	1,695	7,650

Notes to the financial statements

25. Due to other customers

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Retail customers		
- payable on demand	383,268	319,647
- term deposits	2,824,045	2,389,561
Corporate, state-owned and public institutions		
- payable on demand	306,496	299,011
- term deposits	345,509	331,327
Total	3,859,318	3,339,546

26. Liabilities evidenced by paper

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Acceptances under letters of credit	14,980	14,151
Liabilities under repurchase agreements (see note 30)	24,106	85,293
Other term liabilities	86,996	93,919
Total	126,082	193,363

Other term liabilities comprise mainly financing obtained from financial institutions through extension of loan facilities.

Notes to the financial statements

27. Subordinated term debt

As at 30 June 2010 the Bank has entered into six separate subordinated loan agreements with four different lenders. All these subordinated loan agreements are governed by English Law with funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Original principal amount	Original maturity	Maturity date	Amortised cost as at 30 June 2010
Growth Management Limited	5,867	10 years	27.08.2014	11,992
Growth Management Limited	3,912	10 years	24.02.2015	6,878
Hillside Apex Fund Limited	9,779	10 years	01.03.2015	17,310
Growth Management Limited	1,956	10 years	17.03.2015	3,369
ING Bank NV	9,779	10 years	22.04.2015	9,927
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	3,782
Total	35,205			53,258

The treatment of these liabilities for capital adequacy purposes as tier 2 capital is in accordance with the requirements of the local legislation. Any prepayment of subordinated debt prior to its final maturity is subject to written approval from the Bulgarian National Bank.

28. Perpetual debt

In thousands of BGN

	Principal amount	Amortised cost as at 30 June 2010
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	58,027
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	41,904
Total	93,880	99,931

The issue of the step-up subordinated bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands, a subsidiary 100% owned by the Bank was fully guaranteed by the Bank. The terms and conditions of the subordinated bonds fully comply with Ordinance 8 on Capital Adequacy of Credit Institutions issued by BNB. The amounts received for the perpetual subordinated bonds are included in tier 2 capital after respective permissions by the Bulgarian National Bank.

29. Other liabilities

In thousands of BGN

	30 June 2010	31 December 2009
Liabilities to personnel	2,121	3,668
Current tax liability	2,129	1,131
Other payables	2,634	2,106
Total	6,884	6,905

Notes to the financial statements

30. Repurchase and resale agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. At 30 June 2010 assets sold under repurchase agreements are as follows:

<i>In thousands of BGN</i>	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	19,542	21,070
Other government securities	3,036	3,036
Total	22,578	24,106

At 31 December 2009 assets sold under repurchase agreements were as follows:

<i>In thousands of BGN</i>	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	25,944	26,992
Other government securities	58,264	58,301
Total	84,208	85,293

The Group also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 30 June 2010 assets purchased subject to agreements to resell them are as follows:

<i>In thousands of BGN</i>	Fair value of assets held as collateral	Carrying amount of corresponding receivables
Bulgarian government securities	1,922	1,867
Total	1,922	1,867

At 31 December 2009 assets purchased subject to agreements to resell were as follows:

<i>In thousands of BGN</i>	Fair value of assets held as collateral	Carrying amount of corresponding receivables
Bulgarian government securities	2,945	2,810
Total	2,945	2,810

Notes to the financial statements

31. Capital and reserves

(a) Number and face value of registered shares as at 30 June 2010

As at 30 June 2010 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

The share capital of the Bank was increased from BGN 100,000,000 to BGN 110,000,000 as a result of the successful IPO of new 10,000,000 dematerialized shares through the Bulgarian Stock Exchange – Sofia and was registered at the Commercial Register of Sofia City Court on 4 June 2007. In order to facilitate the IPO and prior to its launching the par value of the Bank's shares was reduced from BGN 10 to BGN 1 by a decision of the General Meeting of the Shareholders without affecting the aggregate amount of the share capital and the individual shareholdings.

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 30 June 2010 together with the number and percentage of total issued shares.

	<u>Number of shares</u>	<u>% of issued share capital</u>
Mr. Ivailo Dimitrov Mutafchiev	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	28.94
Legnano Enterprise Limited Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	10,695,000	9.72
Rafaela Consultants Limited, British Virgin Islands	10,695,000	9.72
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	110,000,000	100.00

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of the Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under Bulgarian law, the Bank is required to allocate 1/10 of its annual profit as statutory reserves until their aggregate amount reaches 1/10 of the Banks' share capital.

In 2010, as in the previous year, the Bank has not distributed dividends.

Notes to the financial statements

32. Commitments and contingent liabilities

(a) Memorandum items

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

<i>In thousands of BGN</i>	30 June 2010	31 December 2009
Bank guarantees		
- in BGN	123,167	165,731
- in foreign currency	193,176	185,198
Total guarantees	316,343	350,929
Unused credit lines	273,721	289,482
Promissory notes	12,522	14,295
Letters of credit in foreign currency	93,716	98,749
Total	696,302	753,455

These commitments and contingent liabilities have off balance-sheet credit risk because only organisation fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

As at the end of the reporting period there are no other significant commitments and contingencies which require additional disclosure.

At 30 June 2010 the extent of collateral held for guarantees and letters of credit is 100 percent.

33. Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprises the following balances with less than 90 days original maturity:

<i>In thousands of BGN</i>	30 June 2010	30 June 2009
Cash and balances with central banks	620,528	502,304
Loans and advances to banks and financial institutions with maturity less than 90 days	4,743	6,871
Total	625,271	509,175

Notes to the financial statements

34. Average balances

The average carrying amounts of financial assets and liabilities are set out in the table below. The amounts are calculated by using a simple average of monthly balances for all instruments.

<i>In thousands of BGN</i>	Six months ended 30 June 2010	Six months ended 30 June 2009
FINANCIAL ASSETS		
Cash and balances with central banks	589,208	543,637
Financial assets held for trading	13,284	22,739
Available for sale investments	454,605	385,814
Financial assets held to maturity	35,337	43,543
Loans and advances to banks and financial institutions	25,805	33,300
Loans and advances to customers	3,025,719	3,012,175
FINANCIAL LIABILITIES		
Due to credit institutions	2,876	36,681
Due to other customers	3,620,664	2,920,344
Liabilities evidenced by paper	137,793	732,815
Subordinated term debt	58,671	55,475
Perpetual debt	99,100	98,804

Notes to the financial statements

35. Related party transactions

Parties are considered to be related if one party controls or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions are carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

Type of related party	Parties that control or manage the Bank		Enterprises under common control	
	Six months ended 30 June 2010	2009	Six months ended 30 June 2010	2009
<i>In thousands of BGN</i>				
Loans:				
Loans outstanding at beginning of the period	2,130	2,455	21,721	11,728
Loans issued during the period	(135)	(325)	(2,185)	9,993
Loans outstanding at end of the period	1,995	2,130	19,536	21,721
Deposits and other financing received:				
Deposits at beginning of the period	8,306	6,419	25,075	4,090
Deposits received during the period	(1,575)	1,887	(4,639)	20,985
Deposits at end of the period	6,731	8,306	20,436	25,075
Deposits placed				
Deposits at beginning of the period	-	-	3,912	11,735
Deposits matured during the period	-	-	-	(7,823)
Deposits at end of the period	-	-	3,912	3,912
Off-balance sheet commitments issued by the Group				
At beginning of the period	2,280	1,475	1,322	2,102
Granted	(580)	805	30	(780)
At the end of the period	1,700	2,280	1,352	1,322

The key management personnel of the Bank received remuneration of BGN 1,232 thousand for the first half of 2010 (first half of 2009: BGN 1,253 thousand).

Notes to the financial statements

36. Subsidiary undertakings

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V., which is wholly owned by the Bank. Its purpose is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments, guaranteed by the Bank, the proceeds from which are used to finance the operations of the Bank. The authorised share capital of the company amounts to EUR 90 thousand, divided into 900 common shares of EUR 100 each. Issued and paid up are 180 shares. The Bank consolidates its investment in this company.

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 30 June 2010 the registered share capital of the company is BGN 1,860 thousand, and the Bank's shareholding is 91.18%. The Bank consolidates its investment in the company.

(c) First Investment Bank – Albania Sh.a.

In April 2006 the Bank founded First Investment Bank – Albania Sh.a. with a 99.9998% shareholding. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities.

As at 30 June 2010 the share capital of First Investment Bank – Albania Sh.a. is EUR 10,475 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(d) Establishment of new companies affiliated to the Bank

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in Commercial Registry on 11 January 2010. Each of the new companies has a capital of BGN 150,000, which is divided in the following way:

1. Debita OOD – 70% or 105,000 shares held by the Bank, and 30% or 45,000 shares held by FFBH.
2. Realtor OOD – 51% or 76,500 shares held by the Bank, and 49% or 73,500 shares held by FFBH.

The affiliate companies are set up with the aim to act as servicing companies in accordance to Article 18 of the Special Purpose Investment Companies Act. Debita OOD will be engaged in the following activities - acquisition, servicing, management and transactions with receivables, as well as consultancy services in relation to such operations, and Realtor OOD - in the management, servicing and maintenance of real estates, the organization of construction and renovation of buildings, and consultancy services related to real estates.

37. Events after the reporting period

On 5 August 2010 the Bank acquired a 2% minority stake capital of "Health Insurance Fund Prime Health" AD and has the option of listing the amount of shares needed to become a majority shareholder at the next increase of capital of the company.